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JRF Programme Paper **Austerity**

Coping with the cuts? Local government and poorer communities

**Annette Hastings, Nick Bailey, Kirsten Besemer,
Glen Bramley, Maria Gannon and David Watkins.**

November 2013

This paper:

- details the scale and pattern of cuts in spending on local government in England and Scotland since 2010;
- identifies the 'budget gap' faced by three English local authorities until 2016 and their approaches to tackling this gap;
- explains how councils can analyse their savings plans and assess their potential impact on disadvantaged groups.

**The Joseph Rowntree Foundation (JRF)
commissioned this paper as part of its programme
on austerity, which aims to track, understand and
highlight the effects of policy changes, tighter public
spending and the state of the economy on poor
people and places.**

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Contents

	Page
Main findings	3
Section 1	Introduction
	5
Section 2	The national picture of financial change to local government
	7
Section 3	The 'budget gap' in the case study authorities
	15
Section 4	Strategic approaches to managing the budget gap
	19
Section 5	Are deprived communities being served by strategies to manage the budget gap?
	36
Section 6	Reflections and key messages
	50
	About the authors/acknowledgements
	54
	Notes
	55
	References
	56

Main findings

- In England, local government spending (excluding police, schools, housing benefit) is set to fall by nearly 30 per cent in real terms between 2008 and 2015; an equivalent figure for Scotland would be 24 per cent. As funding covers some new service burdens, the underlying cut in funding for existing services is even higher.
- Cuts in spending power and budgeted spend are systematically greater in more deprived local authorities than in more affluent ones, with a difference of around £100 per head in both England and Scotland; cuts are also generally greater in the North and Midlands than in the south of England, and in the west rather than the east of Scotland.
- Reductions in spending tell only part of the story as authorities also have to cope with rising costs and demands. Three case study local authorities in England – two in deprived urban centres, one in a relatively better off ‘growth area’ – illustrate the real scale of the ‘budget gap’ that councils have to tackle. In two cases, the annual level of savings required since the 2010 Local Government Grant Settlement averages 9 per cent. In the third, the average is 12 per cent.
- Substantial savings have been generated by the case study authorities via a range of ‘efficiency’ programmes which, in theory at least, do not impact directly on the level and quality of front-line services. Opportunities to identify such savings are rapidly diminishing. As a result of having to find other kinds of savings, significant repositioning of local government is currently underway.
- In the coming years, local government will play a different role in relation to individual well-being and quality of life as well as economic leadership. This repositioning will involve:
 - The withdrawal of local government from the provision of a number of services and the dilution of provision in respect of others, accompanied by a transfer of responsibility for some services and client groups to other agencies, sectors and partnerships.

- A redefinition in the relationship between citizens and local councils. Citizens will be expected to take greater responsibility for their own well-being, as well as for quality of life within their neighbourhoods.
 - A refocusing of resources on meeting the needs of the most disadvantaged and vulnerable citizens within council areas and on measures designed to prevent such needs intensifying.
 - A renewed emphasis on developing and managing economic growth as a means both to generate income and to develop the economic competitiveness of the local authority and its region in the longer term.
- It is clear that the local authorities are taking significant steps to protect poor and vulnerable social groups from the most severe effects of austerity. At the national level and in our case studies, authorities have on average made less severe cuts in services which tend to be used more by poorer groups and greater cuts in those used more by better-off groups. At the same time, however, low income groups may still be affected much more adversely by these savings. Public services play a much more important role in the lives of people on low incomes. The next phase of this research will address this question directly.
 - Residualisation of local government service provision is a real danger, in that services are increasingly targeted on the most vulnerable groups and councils risk losing the support and buy-in of better-off social groups. Protecting pro-poor services in the context of diminishing resources could undermine the capacity of councils to provide a broad range of services to groups across the social spectrum.

1. Introduction

The 2010 Comprehensive Spending Review and subsequent Local Government Finance Settlements in 2010 and 2012 were the ‘worst in living memory’ according to a press release from the Local Government Association. In June 2013, a Spending Review for one further year (2015/16) indicated that the budget for English local government would be reduced by a further 10 per cent and further consultation about the technical implementation of the cuts reveals that funding for core services may in fact be cut by up to 15 per cent. While there is evidence that the Scottish Government policy has offered a degree of protection to the budgets of councils north of the border, it is clear that local government is one of the foremost casualties of austerity in the UK.

This report is part of a larger study of the management of austerity by local government in England and Scotland. It is particularly concerned with impacts on disadvantaged people and places. The core of the project comprises detailed analysis of change in local government finances nationally as well as in-depth case studies of four local authorities – three in England and one in Scotland. The project is being conducted in three phases.

1. The first phase analysed the distribution of the local government budget cuts in the period 2010/11 to 2011/12 for England only. It also involved surveying 25 representative English local authorities to understand the early strategic responses to the initial wave of austerity. The results of this phase of the work were published in January 2012 (Hastings *et al.*, 2012).
2. The second phase involved extending the analysis of national change in England to 2013/14 and providing the first analysis of the distribution of budget cuts in Scotland. It also involved detailed analysis of the strategic approaches of three English local authorities to managing austerity, based on forensic analysis of budgetary information and savings proposals, analysis of key documents and plans, and a series of interviews with senior officers within the authorities. This document is an interim summary report of the findings and implications of this phase. A separate Main Report - which reports this phase of research in full - can be found at <http://bit.ly/17Nrjoe>.

3. A third and final phase of the project will update the analysis of national change and the strategic approach of the three English case studies to include 2014/15. A Scottish case study will also be reported on in this phase. However, the main focus of the third phase will be on the impacts of austerity, focusing on the experiences and perceptions of service users, operational managers and front-line officers. A report based on the final phase of the project will be published in the spring of 2015.

2. The national picture of financial change to local government

In this section we review changes to the finances available to local authorities over the period 2010–2015 for both England and Scotland. We start with the aggregate picture of planned cutbacks, looking forward to planned levels in 2015, set in the context of longer-term trends. We highlight the major mechanisms of change and look at the impact on spending power for different types of authority up to 2014. We look at the extent of reductions facing different services, comparing England and Scotland. We then look more closely at the impacts on different types of authority, with a particular focus on deprivation levels but also considering regions, urban-rural differences and the political control dimension. The section concludes with a brief review of changes in the system of local government finance implemented during this period.

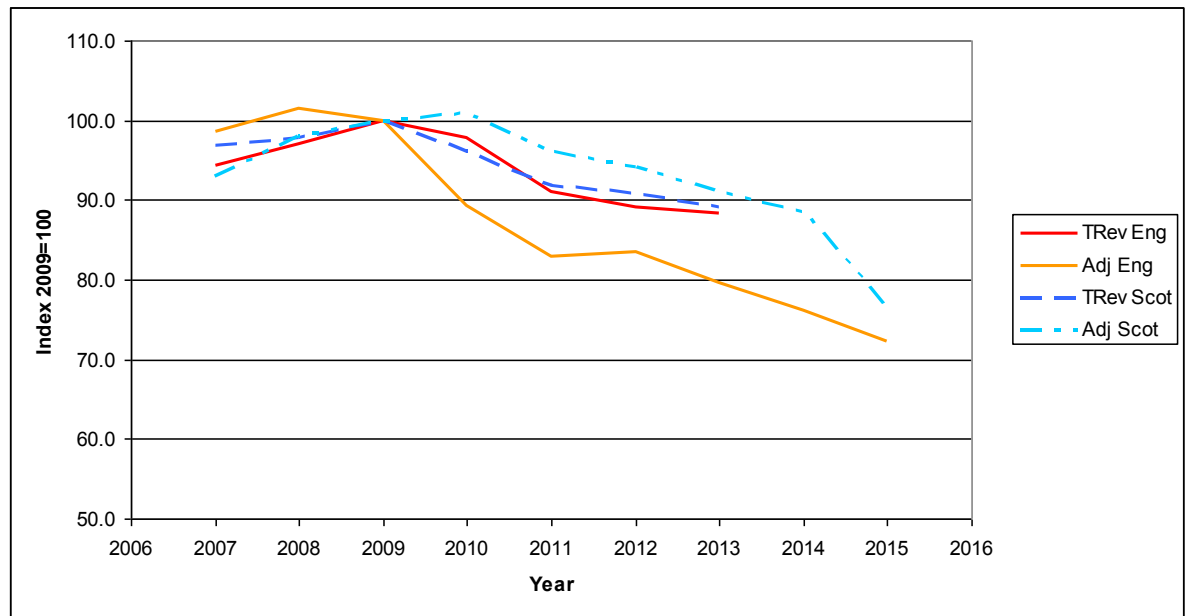
The scale of the cuts in context

The sharp cutbacks in local government funding revealed by this analysis should be placed in context by noting that local expenditure in both England and Scotland increased substantially in the period 1998–2006. However, examining spending relative to GDP over a twenty year period (1991–2011) it can be seen that, although there was some fluctuation, the share of local government in the economy at the end of this period was similar to the position at the beginning.

From a peak in 2008–2009, spending has declined sharply in real terms and is planned to decline further to 2015, especially in England (Figure 1). On a broad definition of total revenue expenditure, the reduction from 2009 to 2013 is 12 per cent for England and 11 per cent for Scotland. However, on a more pertinent adjusted basis, excluding schools, police and housing benefits (items which are no longer in local authority control or which are demand-led), the reduction from the peak (2008–2009) to 2015 will be 29 per cent in England and 24 per cent in Scotland.

Taking nearly 30 per cent out of local authority budgets, while still expecting them to deliver the same statutory services and respond to increased demand for some services, represents a massive challenge. As we show in later sections, this cannot be achieved solely by ‘efficiency’ changes. On the narrower adjusted definition, local government’s share of the economy would fall substantially, from 5.1 per cent to 3.6 per cent.

Figure 1: Real expenditure trends and plans, England and Scotland, 2007/8–15/16



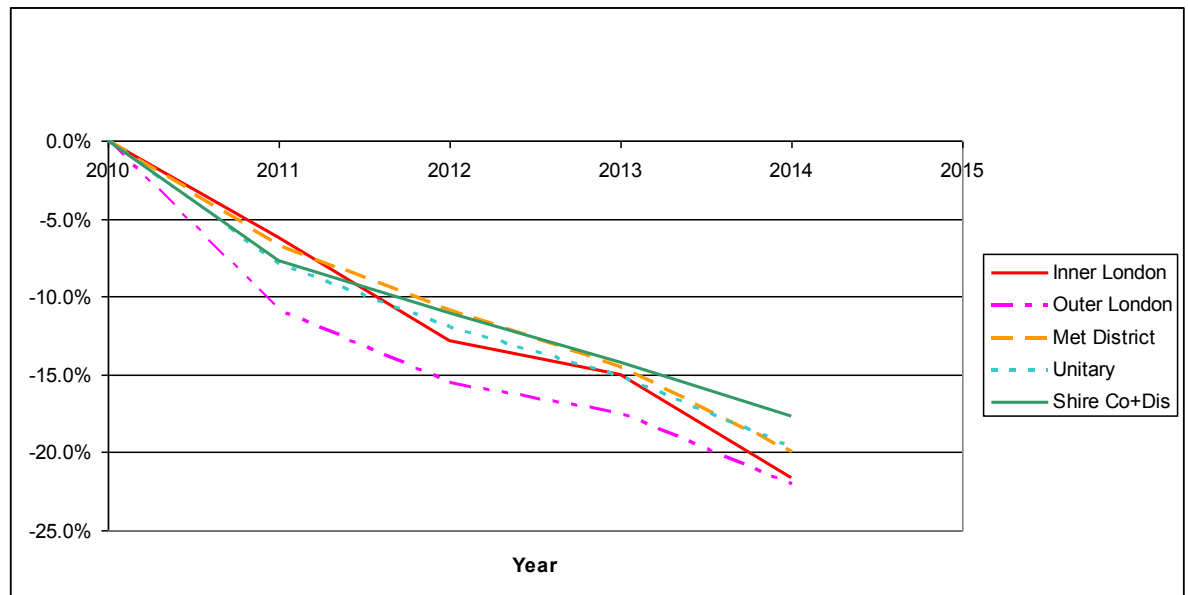
Notes: 'TRev' refers to total revenue expenditure including schools, police; 'Adj' excludes schools, police, fire, and housing benefits/allowances.

Sources: DCLG (2013), Table 3.2e; HM Treasury (2012), Table 7.2; Scottish Government (2013a), Table 2.3; Scottish Government (2013b).

Spending power changes by type of area

Figure 2 looks at the changes in nominal spending power from 2010 (original budgets) to 2014 for the different classes of local authority in England. It shows particularly large reductions in London and slightly lesser reductions in shire areas – the figures for outer London are somewhat affected by the high incidence of academy schools in that area. This figure also shows that the cuts were particularly steep in 2011, slightly shallower in the following two years, and then steepening again in 2014.

Figure 2: Spending power reductions in England by local authority class, nominal per cent, 2010/11–14/15



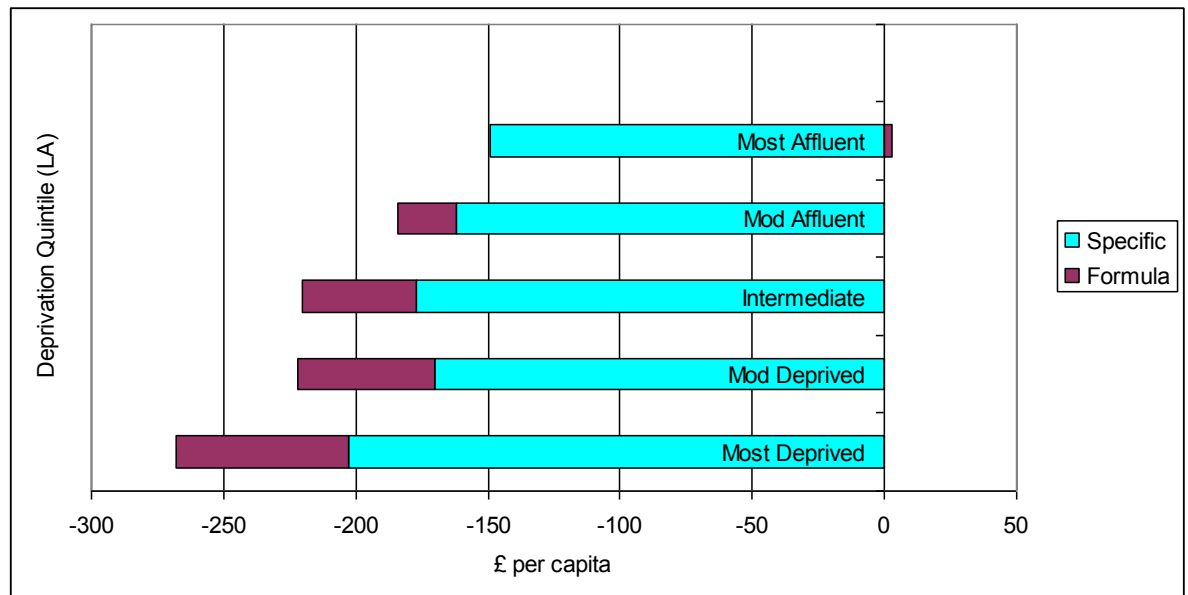
Sources: Authors' analysis of CIPFA Financial and General Statistics volumes, DCLG Local Government Financial Statistics and DCLG Grant Settlements.

The impact on deprived local authorities

The local finance system is complex and has been subject to considerable changes over this period. However, it is clear from our analysis that the largest factor accounting for overall reductions and the differential effect on different areas has been the reduction, scrapping or consolidation of many specific grants, for example the former Area-Based Grant, although the general formula grant has also been subject to some reduction, again to a different degree in different types of area.

Figure 3 illustrates this, but also highlights a key finding relevant to this study: that the scale of the cutback has been greater in more deprived local authorities than in more affluent ones. Figure 3 expresses this in terms of per capita spending power, where there is a difference of over £100 per head between the most and least deprived. Deprived authorities were previously more grant-dependent and have suffered disproportionately. However, even in percentage terms, deprived areas have seen a greater reduction in spending power (-21.4 per cent) than affluent areas (-15.8 per cent).

Figure 3: Spending power cut from formula and specific grants by deprivation level of local authority, English all-purpose authorities 2010/11–14/15



Sources: As for Figure 2. Note: 'All Purpose Authorities' comprise London Boroughs, Metropolitan Districts and Unitary Authorities

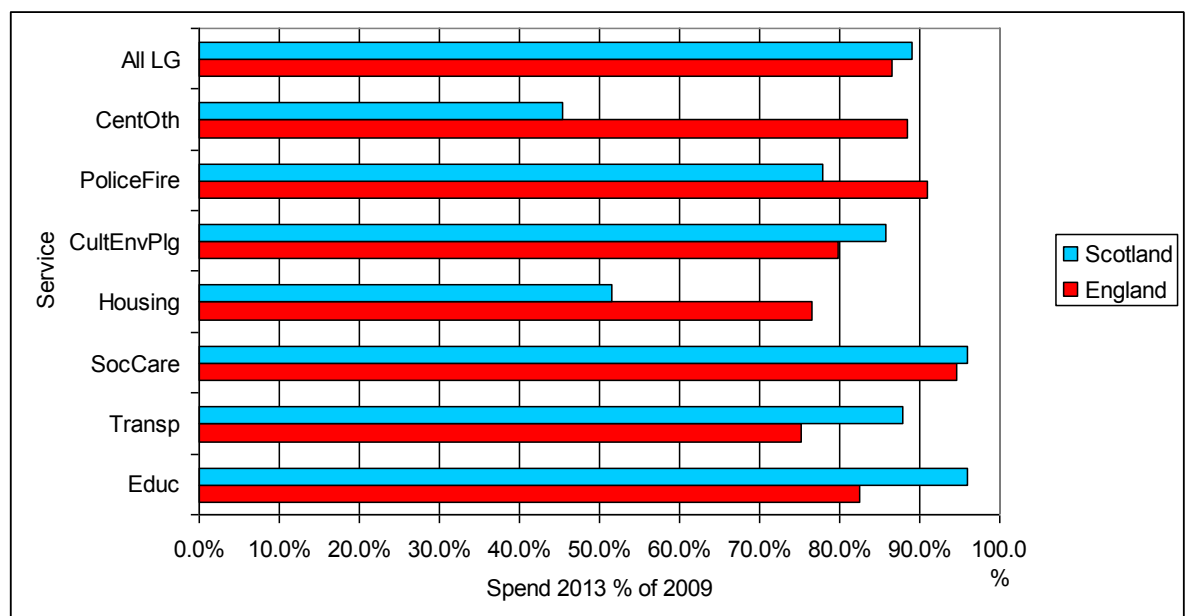
Although the extent of cuts in Scotland has been somewhat less than in England, it is noteworthy that the same difference between deprived and affluent areas appears to apply there as well, notwithstanding the different policy framework and priorities under devolution. The most deprived Scottish councils reduced expenditure between 2010 and 2013 by £90 per head more than the most affluent councils did, a remarkably similar figure to those for England (£67 including education, £104 excluding education, for all-purpose authorities). In both countries, this differential applies across most services.

The impact on different services

The cuts have impacted differentially on different services, with some being more 'protected' by statutory responsibilities, policy priorities and levels of demand. Figure 4 summarises changes between 2009 and 2013 for both England and Scotland. Social care services have been cut least overall, and indeed as we show below in some areas these are still expanding, partly supported by funding transfers from NHS but also by demand or need pressures. Education has seen small cuts in Scotland, with larger reductions in spending reported for the local government

maintained sector in England due to the effects of the academies policy. Services in the culture, environment and planning fields have generally seen rather larger cuts, as have transport and housing services. In general, the cuts in most service groups are greater in England than in Scotland. Exceptions include central and ‘other’ services (where there are some definitional differences) and police and fire (where Scottish spend reduced noticeably to 2012 in the run-up to these services being transferred to national authorities from 2013).

Figure 4: Actual spending changes by main services in real terms, England and Scotland, 2009/10–13/14



Note: Housing grouped with ‘other’ in Scotland

Sources: Authors’ analysis of DCLG (2013); CIPFA (2013); Scottish Government (2013a; 2013b).

The impact on different kinds of authority and regions

We have examined the pattern of spending changes in terms of the political control of councils. Overall, the differences are small, although the reductions are greater for Labour councils and those with no overall control than for Conservative and Lib Dem councils in England, when looking at expenditure excluding education. However, statistical modelling of budget changes suggests that political control has, in fact, very little independent effect after allowing for other factors such as deprivation and level of grant income. This is true for most individual services and overall.

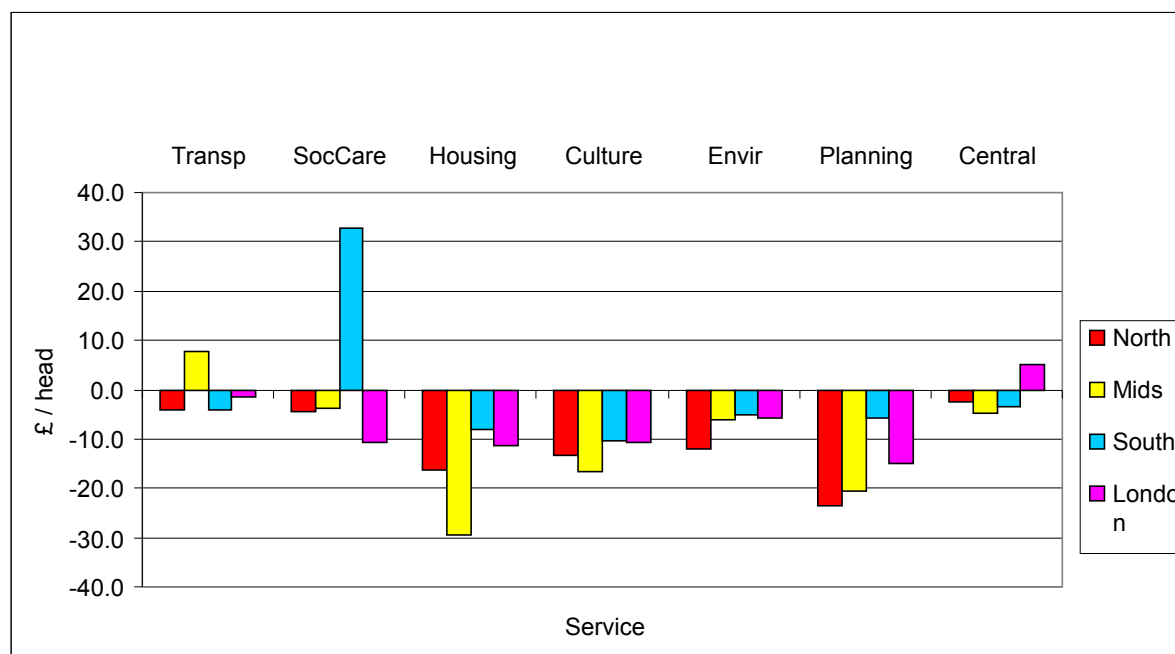
In Scotland, Labour councils see slightly greater spending reductions (£28 per head) than SNP councils, but somewhat greater differences in terms of which services are cut more.

There are also some regional differences in spending changes across England, as illustrated by Figure 5, which refers to all-purpose authorities. For most services except transport, change is more negative in the north of England and/or the Midlands than in the south, with London in an intermediate position. There is a striking increase in social care expenditure in the south of England. For non-education services as a whole, the north-south difference is £69 per head. In Scotland, there is a detectable difference between west and east, with the former seeing greater cutbacks.

We can also look at spending power changes (2010–14) across different types of authorities using the ONS ‘group’ typology for all-purpose authorities in England. This shows bigger reductions (24–25 per cent) in ‘New and Growing Towns’ and ‘Thriving London Periphery’ and a noticeably smaller reduction in ‘Prospering Southern England’ (12 per cent). Such a pattern seems somewhat inequitable and not wholly consistent with the government’s agenda of supporting areas planning for growth. Our statistical analysis also showed little systematic relationship with demographic growth.

The difference in spending power change between urban and rural areas is slight, with marginally greater reduction in the urban areas, in both England and Scotland.

Figure 5: Spending changes in England by service and region, all-purpose authorities 2010/11–2013/14, £ per capita, nominal



Source: Authors' analysis of CIPFA *Financial and General Statistics Estimates* for 2010 and 2013.

System changes

The spending changes reviewed in this section have been much affected by changes in the local government financial system as a whole and by changes affecting particular services. On the whole, these have tended to see a growing divergence between England and Scotland.

In England, schools funding has been channelled directly from central government in a 'Dedicated Schools Grant' since 2006, whereas school education remains firmly within the local government system in Scotland. Schools budgets have been generally protected, but this does not apply to the significant spending incurred centrally by councils in support of education. Growing numbers of schools in England are now Academies and Free Schools funded directly outside the local government system, and consequential reductions in funding for central support services have had an increasing impact.

The former Area-Based Grant, a grouping of many former specific grants targeted at deprived areas in England, was scrapped after 2010, although some elements like 'Supporting People' have been rolled into the Formula

Grant. This is a major cause of the disproportionate cuts experienced by deprived authorities in England.

Some resources have been transferred to local government from the NHS to support service transfers and service reforms in the social care arena, together with Public Health from 2013 in England. Further changes in this area of funding are anticipated, to strengthen healthcare links.

Police and Fire services have become fully detached from local government in Scotland from 2013, whilst these services can be seen as increasingly 'semi-detached' in England, with separate joint authorities and partially separate funding streams.

From 2013, the Business Rate has been partially re-localised in England, in the sense that up to half of future increases in business rates will be retained locally. This will mean some progressive movement away from the long established principle of 'fiscal equalisation' in English local government.

Both countries have been operating a Council Tax freeze and this may continue in the immediate future, although increasing numbers of English local authorities are declining to follow this policy in 2013. The effect of a freeze is that local authorities no longer determine their total budget, and their main area of local discretion is over the balance between spending on different services.

From 2013, Council Tax support for low income households has been 'localised' in England, with an overall cut in resources of 10 per cent, with funding of £3.2bn transferred from DWP into Local Government spending figures to be focused on working age households, but with different schemes implemented in different areas. The Scottish Government has chosen not to make this change, although it will have to absorb the cut in resources somewhere else in its devolved budget.

3. The ‘budget gap’ in the case study authorities

This section and the following two focus on the three English case studies. This section explains how and why the case studies were selected. It then sets out the size of the crucial ‘budget gap’ that each is facing. The budget gap is the sum of the kinds of funding gaps discussed in the previous section (largely cuts in funding from central government) and of expenditure pressures from rising costs or demands. It is this budget gap that each authority must close through savings in order to balance its budget every year.

In Section 4, we examine the strategic approach of the case studies to tackling the budget gap, identifying the scale and nature of the savings they have made. In Section 5, we begin to consider the likely impact of these strategies on more disadvantaged people and places by looking at which kinds of service have faced the greatest cuts and which have been more sheltered.

The case studies and how they were selected

The case studies were selected on the basis of the first phase of the project, which involved a telephone survey with 25 broadly representative English local authorities. This developed a typology of strategic approaches being employed at that time. The typology was used to guide case study selection. Subsequent interviews revealed that the strategies in each area had moved on or evolved, so the initial typology no longer appeared so relevant. Additional selection criteria were regional spread and level of deprivation. We also restricted the case studies to unitary authorities on grounds of simplicity and ease of comparability and we excluded London authorities as a separate project was focussing on them.¹ In brief, our three English case studies are:

- Newcastle City Council: a deprived urban authority in the North-East, historically Labour-run although between 2004 and 2011, it was run by the Liberal Democrats.
- Coventry City Council: a deprived urban authority in the West Midlands, historically governed by the Labour Party although, for the period 2004 to 2010, the Conservative Party held control.

- Milton Keynes Council: a non-deprived urban authority in the South-East, governed by a Conservative minority administration since May 2012, with no party being in overall control since 2006.

A final – and crucial criterion – was that the case studies would be prepared to work ‘open book’ with the research team and, in particular, would give the team complete access to budgetary information and savings plans. All three authorities were working with three-year budget cycles by 2013/14, partly because of the need to develop far-reaching savings plans to cope with austerity. This means that we have budgetary information for all three councils for the period until 2015/16 (though generally with less detail for the later years).

Funding gaps and cost pressures

The funding gap measures the reduction in each authority’s net revenue budget from one year to the next. Newcastle’s annual funding gap has averaged at 5.6 per cent over the five year period 2011/12 to 2015/16. This is a markedly higher level of funding gap than that faced by the other two authorities: Coventry averaged 3.5 per cent and Milton Keynes 1.7 per cent. As a less deprived authority, Milton Keynes did not face such significant losses in this period as it had not been receiving the various specific grants targeted at deprivation which were brought to an end at this time.

Funding gaps tell only half the story about the financial pressures on authorities. Even if funding had remained constant, authorities would still have had to make savings each year to offset expenditure pressures. Salary costs as well as general inflation in the price of goods and services drive up costs. Population growth as well as demographic change may increase demand for services in general and for some (such as care) in particular. Recessions also tend to increase demand for some local authority services (e.g. looked after children) or to reduce some income receivable by councils. Other expenditure pressures include workforce pension scheme costs and redundancy as well as the need to comply with legal judgements (e.g. on equal pay) or legislative changes. Council policy decisions may also lead to new or increased areas of expenditure.

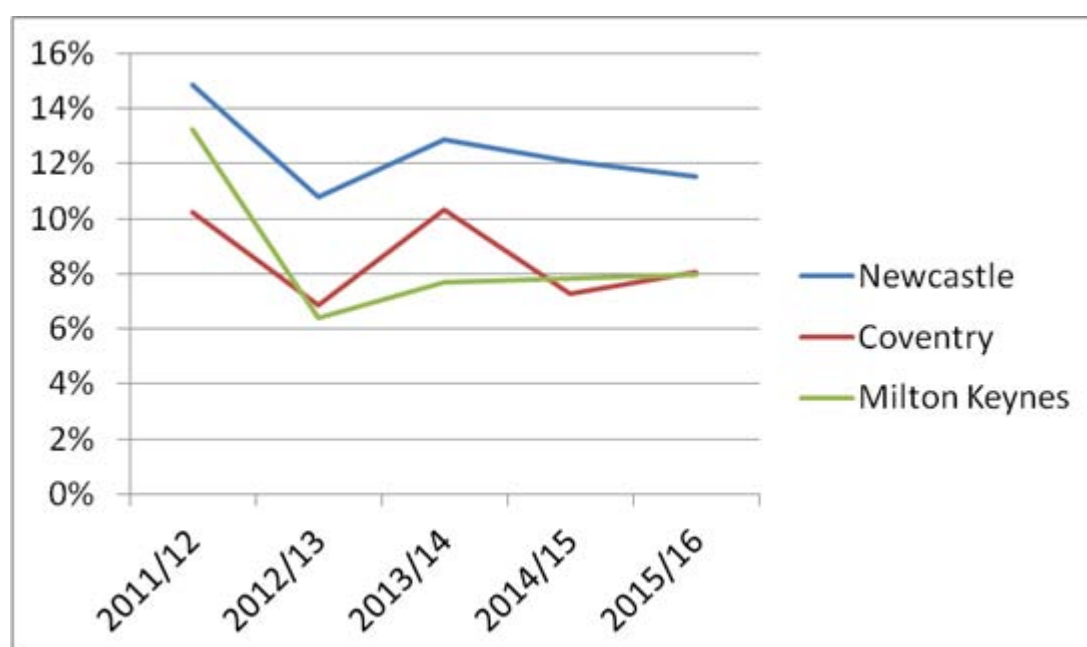
The three councils report broadly similar levels of expenditure pressure overall, although these are marginally lower in Coventry (5.0 per cent) than in Newcastle or Milton Keynes (6.3 and 7.8 per cent respectively). The two established cities have similar levels of socio-economic

disadvantage. Both have marginally fewer elderly people than the national average but, given the high correlation between deprivation and poor health, experience significant demand for care services for the elderly. Milton Keynes is not only relatively wealthy in comparison with the other case studies, but has been growing faster for some time. Population growth has largely been a result of in-migration so the city has relatively fewer older people and more around 30–40 and, as a consequence, more children.

The budget gap in the case study authorities

The budget gap is a measure that combines funding reductions with cost pressures. It refers to the total amount of savings that need to be made from the previous year's budget to balance the books, and is the best measure of the scale of the challenge facing each authority. Figure 6 shows the budget gap for the three case studies.

Figure 6: The budget gap by case study – 2011/12 to 2015/16



Notes: Figures as a percentage of previous year's budget. Projections for 2014/15 and 2015/16 subject to increasing uncertainty.

Sources: Mid-term financial plans, pre-budget reports and budget reports – various years and authorities.

Figure 6 shows that all three authorities have faced very substantial budget gaps in recent years and that the pressures they produce are set to continue. Budget gaps average 9 per cent a year or more in all three authorities, with Newcastle facing a consistently higher gap – averaging 12 per cent per year. The figure also demonstrates the uneven impacts of austerity over the three years, with particularly large budget gaps affecting 2011/12 – reflecting the front-loading of cuts – and, to a lesser extent, also 2013/14. Current estimates of the budget gaps for the next two years suggest they will be slightly lower but it is important to bear in mind that these gaps are cumulative. Assuming that authorities have started with the easiest savings or by reducing the least important services, the potential impacts of later gaps are even greater.

The scale of the budget gaps year on year, plus the fact that pressure is expected to remain for some years to come, suggests a very challenging financial context for the case studies. It suggests that very profound changes must be being made in patterns of expenditure to balance the books. In the next section, we examine the means by which the case study authorities have addressed these budget gaps.

4. Strategic approaches to managing the budget gap

This section identifies the key strategic approaches developed by the case study authorities in order to tackle their budget gaps. It is based on:

- a set of strategic interviews conducted with senior officers within each case study authority, as well as feedback discussions designed to validate findings;
- detailed analysis of the strategic documents prepared by each authority detailing overall strategy, council plans and savings plans for individual service areas;
- analysis of budgetary information for the five year period from 2011/12 to 2015/16 to identify the scale and nature of savings. It is this information that details which services and functions are being subject to what kind of changes – such as staff losses, restructuring, closures and reductions. In total, 1,400 budget lines reporting this information were analysed by the research team.

We begin by setting out a framework for analysing savings (Table 1). This defines three headline strategies which can be deployed to manage austerity:

- Efficiency: Actions which aim to **reduce costs** of council services without changing service levels as far as the public are concerned;
- Investment: Actions which aim to **reduce the need** for council services or reduce the cost of services in future;
- Retrenchment: Actions which **reduce the council's role** in terms of the services it provides and for whom.

The table also highlights specific sub-strategies within these and illustrates what these entail through their key dimensions. We discuss how each strategy can be pursued in more detail below using illustrative material from our case studies. Each case study authority deployed elements of all three strategies although the balance varied and changed over time.

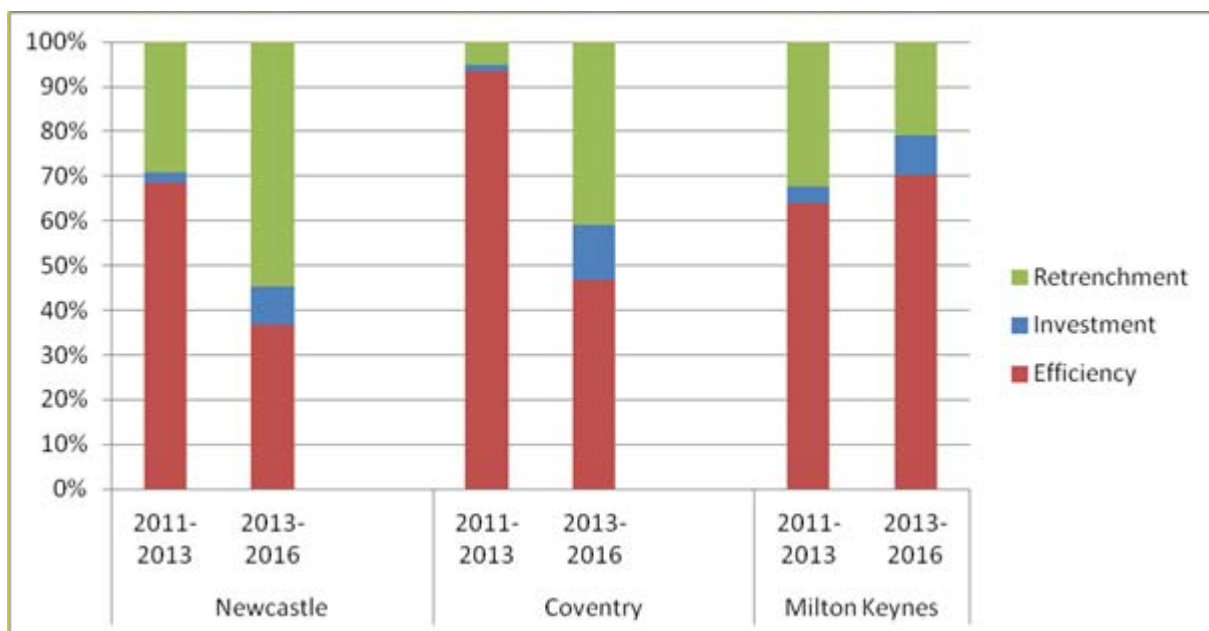
Table 1: Strategies to manage the budget gap

Headline strategy	Specific sub-strategies	Key dimensions
Efficiency Actions which aim to reduce costs of council services without changing service levels as far as the public are concerned	1. Reduce 'back office' and 'fixed' costs	Management layering; corporate redesign; reduced support functions; technology used for support; reduced interest payments; reduced office space
	2. Income generation or loss reduction	Increase traded income via selling services; more effective debtor management
	3. Seek savings from external providers	Re-commission existing contracts (unilaterally or with other local authorities); outsource services; bring outsourced services 'in-house'
	4. Redesign front-line services	Generic working; integration of services; consolidation of services in 'hubs'; smarter working using technology; hot-desking
Investment Actions which aim to reduce the need for council services or reduce the cost of services in future	1. Encourage economic growth or increase local returns from employment	Attract investment or jobs; improve residents' access to jobs; improve returns from work (e.g. Living Wage)
	2. (Accelerate) capital investment	Growth-orientated investment (e.g. site preparation); service-orientated investment (e.g. technology or facilities which reduce service delivery costs)
	3. Preventative revenue spend	Introduce/ expand services aimed to future reduce needs (e.g. re-ablement in domiciliary care)
Retrenchment Actions which reduce the	1. Renegotiate division of responsibilities between council	Pass responsibilities/costs to or share these with other agencies (e.g. NHS, vol. sector); development of collaborative activities; new models of

<i>council's role</i> in terms of the services it provides and for whom	and other agencies	provision (e.g. co-operatives)
	2. Renegotiate division of responsibilities between council and citizens	Asset transfer to community groups; citizen volunteers to supplement or deliver services; civic responsibility and self-service
	3. Individual charges (for existing services)	New or increased charging for services
	4. Reduce the range of services supported by the local authority	Service no longer provided; 'statutory' only level of service provided; withdrawal of subsidy for service;
	5. Continue to provide the service on a universal but reduced level	Reduced number of a specific facility (e.g. libraries); reduced frequencies (e.g. refuse collection); reduced staffing of service
	6. Continue to provide the service but target towards 'need'	Provision targeted proportionately across the social gradient; provision focused only on the most needy groups or neighbourhoods

To understand better the approaches used by each authority, the research team analysed the 1,400 lines of budget savings, allocating each one to one or more of the specific strategies identified in the table. This process enabled a quantitative picture to be established of the balance of savings between the strategies, and for change over time to be assessed. Figure 7 compares the savings that the case study authorities had already implemented at the time of the research with those they had identified for the next three years but not yet implemented.

Fig 7: Comparison of 2011–2013 and 2013–2016 savings by headline strategy and case study



Source: Authors' database of budget savings.

This analysis shows:

- The substantial role played by efficiency savings in all three case study authorities in the two financial years following the 2010 Grant Settlement.
- The scale of efficiency savings generated thus far will not be sustainable as austerity continues. This is particularly apparent in the two deprived urban authorities, Newcastle and Coventry. Qualitative evidence also suggests that, in Milton Keynes, efficiency savings will become much more difficult to identify by 2015/16.
- That investment strategies designed to manage or reduce need are not anticipated to have a major impact in the short to medium term.
- As a consequence, that the retrenchment of service provision will increasingly replace efficiency measures as the major means to manage the budget gap in the coming years. This will happen more quickly in the major urban centres, which are disproportionately home to more deprived populations.

Other councils may find it valuable to consider how their own approaches to managing the budget gap fits within the framework set out in Table 1. In Box 1, we explain how such assessments could be done.

Box 1: How to quantify and track savings in relation to the efficiency, investment and retrenchment framework (Figure 1)

Step 1: Take your detailed savings plans for the year or years you wish to base your analysis on and identify the specific strategies applicable to each saving. This is done using the key dimensions in the right-hand column of Table 1.

Step 2: Where the key dimension fits your savings proposal apply the corresponding headline criteria. This will give a breakdown of the savings by efficiency, investment and retrenchment. For a more detailed analysis apply the specific strategies from Table 1.

Should a particular savings proposal fit more than one specific strategy then proportion the amount accordingly.

Note: This process should be carried out by more than one person separately and once complete the results should be compared to check overall consistency.

In the rest of this section, we provide some brief discussion of the efficiency, investment and retrenchment strategies in action – more detail is provided in the Main Report (see page 5 for hyperlink).

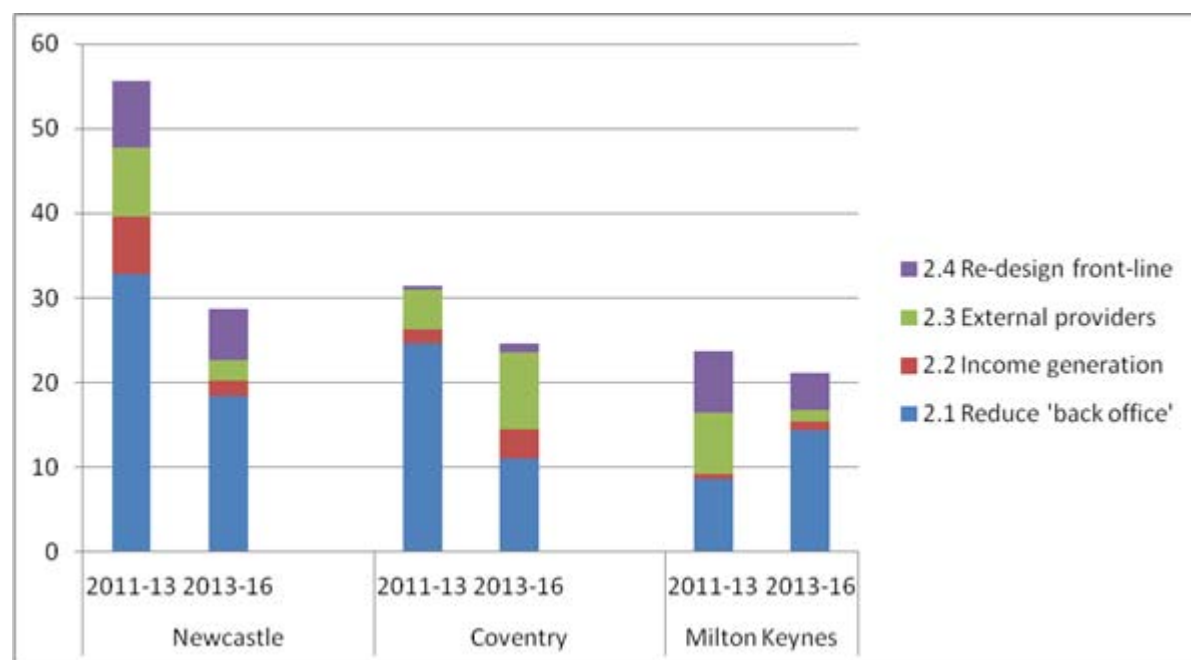
The end of efficiency?

All three case study authorities have been implementing major organisational change projects, which are designed to achieve substantial efficiency savings. These have been underway since at least the 2008 recession, which led to incremental reductions to local government budgets in the last years of the Labour administration (and can be seen in Figure 1). However, the budget contraction announced in the 2010 Grant Settlement provoked a step change in the nature and scale of these programmes.

In Newcastle, total efficiency savings delivered or planned for the five year period 2011 to 2016 amount to £84m. Efficiency savings in Coventry are £56m over the same period, while for Milton Keynes they are £45m. This

is clearly a very significant scale of activity. Figure 8 breaks these figures down into the four specific sub-strategies identified in Table 1.

Figure 8: Comparison of efficiency savings 2011–2013 and 2013–2016 by sub-strategy and case study (£millions)



Source: Authors' database of budget savings.

What is striking is the proportion of these savings generated from 'back office' initiatives such as corporate restructuring. In Newcastle's case, this is over £51m, or just over 60 per cent of the total. In Coventry, it is over £35m or nearly 64 per cent, while in Milton Keynes it is £23m or just over 50 per cent of total efficiency savings. Across the three councils, nearly £110m of savings have been generated by this means alone.

In contrast, savings in front-line services generated via service consolidation or greater generic working are much smaller in scale: £27m across the three case studies. There is some significant variation, however. In Newcastle, the total is £14m (just over 16 per cent); in Coventry it is just £2m (or just over 3 per cent of the total) while the Milton Keynes figures are more substantial at £12m (26 per cent). This reflects explicit attempts by the councils to protect front-line services in the first years of austerity. As austerity unfolds, however, front-line services are likely to be increasingly subjected to changes beyond efficiency measures, as the discussion below of retrenchment shows.

It is important to note that a further £33m of efficiency savings have been or are planned to be generated in the services which the councils commission others to provide – for example, private companies providing care to the elderly or voluntary organisations providing welfare advice. This research project has not been designed to investigate the implications of re-commissioning such contracts for those organisations. It should be noted that senior officers in the three case study authorities were clearly mindful of the potential dangers of driving down costs in externally-provided services. A more substantial programme of research would appear to be warranted – across a broad range of authorities – designed to consider the long-term effects of local government budget contraction on those organisations.

One of the main ways in which efficiencies have been generated is via a substantial programme of staff reductions, managed in large part via voluntary severance. In all three authorities, many senior posts have been deleted through ‘management layering’. By 2015/16, Newcastle will have reduced its 2010 staffing complement by 2,300 full-time equivalent (FTE) (36 per cent). In Coventry, staffing reductions amounted to 1,427 FTE (22 per cent) in the shorter time period 2010–2013 and in Milton Keynes – again over this shorter period – reductions were of the order of 450 FTE (18 per cent).

Clearly, not all staffing reductions should be understood as efficiency savings. And, importantly, not all of the staff reductions identified here are in back office rather than front-line functions, although we are not in a position to quantify the actual balance. The third phase of the research will attempt to explore the impacts on front-line services of staff losses and efficiency measures more generally. Interviews with senior officers did suggest, however, that the effects of staff losses were already being felt. This is evident in relation to morale and quality:

“You work harder ... you do work much harder. Sometimes the quality’s been compromised, what I’d call the spit and polish isn’t there anymore – the icing on the cake, the finishing touches. We can’t do as much as we want to do, and I find that hugely frustrating ... it’s just – it’s back to back.”

Senior council officer.

Also in relation to managing change, both within the council and in its relationships with others:

“If you’re going to drive a huge change agenda, and the biggest change agenda that I’ve probably seen in 30 odd years of government – you’re going to need more capacity, not less.”
Senior council officer.

However, the key point to emerge both from the quantitative and qualitative evidence was that efficiency savings were becoming harder to find and that other strategies would, by necessity, come to the fore to manage the budget gap. This view was strongly voiced in both Newcastle and Coventry, but was also a significant concern in Milton Keynes where – as the quantitative analysis showed – significant efficiencies were still thought possible until 2016. Reflecting on the further cuts to local government budgets announced in the June 2013 Spending Review, a senior Milton Keynes officer argued:

“Going forward, the council is running out of easy reductions. The real worry is what we do as we move forward. We now have another two years ahead and we have taken out the easy savings.”
Senior council officer.

As the number of people providing key services is cut down, there is a growing risk that the services will not have the resilience or capacity to respond to additional pressures. There is therefore concern about the impact and cost of service failures.

Investing – to grow and to save

Local government has played a significant role in economic development for more than 30 years. However, the interviews in the deprived urban centres of Newcastle and Coventry in particular suggested strategies focused on economic development and growth were being given a new emphasis. This was both a direct result of budget contraction and a response to the incentives provided by the change in the Business Rates system described in Section 2. In parallel, there was quite vigorous activity around devising interventions to diversify the labour market or re-distribute opportunities from it.

Strategies under the investment heading have two key objectives:

1. To manage or reduce demand for council services – ‘invest to save’. As Councillor Nick Forbes, Leader of Newcastle City Council argued:

“People in work also means fewer community tensions, fewer health and social problems, less crime, and is the best way of increasing the resilience of individuals and communities. So creating jobs, and ensuring local people have the skills to do them, is part of our vision for a fairer city, where people rely less on public services.”

Nick Forbes, Foreword to *Newcastle – a working city*, Newcastle City Council (2012a).

2. To reposition local authorities at the forefront of economic leadership – the ‘growth agenda’. One senior officer argued that a direct outcome of budget contraction will be the production of ‘two leagues of local authorities’; one where members are able to lead their locality out of recession and one where members are unable to do so. Indeed, the Chief Executive of Coventry Council has taken ownership of economic development in the city.

In Newcastle and Coventry, capital and revenue programmes were being more closely aligned, both to the ‘growth agenda’ as well as to ‘invest to save’ activities. Newcastle has identified £400m of capital investment over three years, much of which is focused on business growth and aligned with its revenue programme to deliver preventative spend. Coventry is embarking on a major city centre regeneration plan, underpinned by a £59million investment from its capital programme. In common with the other two case studies, Coventry is also investing in assisted living technology designed to promote independence and reduce pressure on care costs. Clearly, investment in this kind of technology pre-dates austerity. What is striking, however, is that the understanding of the potential of such technology appears to have shifted from how it can be used to enhance care to how it can save on more costly forms of care.

Both Coventry and Newcastle are also investing in strategies designed to reduce numbers of ‘looked after’ children and reduce future costs. Newcastle recruited five additional staff in early 2013 in an attempt to increase the rate of adoption in the city. A major campaign has also been designed to recruit new adoptive parents. This investment is being relied on to deliver savings of the order of £3.7m over the period 2013–16.

As an area already enjoying economic and population growth, the Milton Keynes case study offers some contrasts in relation to investment strategies. A key issue for the council is how to manage the impact of growth: both on its capital budgets in terms of the need to fund the

infrastructure to support housing and other forms of development; and on its revenue budgets as a consequence of increased demand for services. It was the first council in England to introduce a 'roof tax' designed to offset some of the costs of the infrastructure necessary to support development. The council is also attempting to use the benefits of economic growth to reduce demands on services, for example by using the income generated from a casino development to fund area regeneration and employment support initiatives.

As Figure 7 demonstrates, investment strategies are not anticipated to generate substantial savings for any of the authorities over the short to medium term. Indeed, none of the authorities had attempted to identify the scale of savings it might hope to generate from economic development activity. It should be noted that returns from this set of activities are expected to emerge over the next 20 or so years, rather than over the three years considered in the budget cycle. The uncertainty of this whole endeavour should perhaps be emphasised. Despite the rhetoric of localism, local government is only one player in a much bigger set of factors that will determine the economic trajectory of their jurisdictions. The case study authorities are arguably prudent in avoiding balancing budgets based on assumptions about growth. Indeed, when it comes, growth will inevitably be uneven. It will also be highly competitive. One further impact of austerity might be to increase the level of competitiveness between local authorities – particularly at the sub-regional scale.

Retrenchment – who provides which services and for whom?

While local government's role as an economic leader might be expanding, its role in relation to providing services designed to promote individual well-being and quality of life would appear to be contracting.

Retrenchment in respect of *direct* service provision has been ongoing since the 1980s and the advent of the 'enabling local authority', which focused on commissioning rather than delivering services. However, the evidence of this research is that a step change is on the horizon in relation to the role of local councils in both the direct and indirect provision of a broad range of services. This is despite the fact that none of the three local authorities taking part in the research were vigorously setting out to divest themselves of a responsibility to provide a broad range of services to a diversity of social groups.

There are three aspects to this change:

1. Increased expectations with regard to the contribution that other public and voluntary agencies as well as individual citizens can make to services focused on individual well-being and neighbourhood quality of life.
2. A narrowing of the range and level of services provided directly or indirectly by councils.
3. More targeting of services on social groups with higher levels of need and vulnerability.

Retrenchment in respect to service provision is a key part of the story of how local authorities are repositioning themselves as a consequence of austerity. As Figure 7 demonstrated, the strategies captured under this heading are likely to replace efficiency programmes as the main way in which two of the case studies at least manage their budget gap in the years until 2016. Thus, in Newcastle, more than half of the savings plans under consideration as a means to close the budget gap will be achieved via these kinds of strategy.

For our study, retrenchment is obviously of great importance. These are the areas where the council expects there to be impacts on services received by citizens – in contrast to efficiency or investment, where no impacts are expected. In Section 5, we provide more detail on the kinds of services which are affected by service retrenchments in the case study authorities. We explore in a quantitative sense how the pattern of retrenchment in relation to specific services may affect disadvantaged social groups in particular. Before doing this, however, the discussion below gives some examples of retrenchment in action.

Increased contribution of other agencies and citizens

There is an ambition to increase the contributions made by other agencies and ordinary citizens to the outcomes which local government has traditionally worked to achieve – such as appropriate levels of social care for individuals, or clean streets and good quality recreational facilities within neighbourhoods. As others take over these responsibilities, the council can step back from them. It is in this sense that developments of this nature can be understood as a form of retrenchment for local government.

The savings plans designed by the case studies to close budget gaps with respect to social care illustrate this trend. In both Newcastle and Coventry, there are moves to renegotiate the boundary between council-provided services and those provided via the NHS. In Coventry, the council aims to make use of NHS health visitors to facilitate earlier identification of problems and to allow the council to target its services more effectively. Newcastle is developing a 'Health and Care City Deal' in which the health and social care needs of older people and people with long-term health conditions are dealt with in an integrated manner by the council and NHS. That this will involve a reduction in inputs from the council is indicated by the identification of potential savings to the council of around £2m for 2015/16 as a result of this initiative.

The strategies being put in place to increase the contribution of local citizens to – in the words of one senior officer – 'delivering their own well-being' perhaps illustrate this form of service retrenchment more clearly. Across the case studies, there is a strong emphasis on strategies which will change the balance of responsibility between the council as a service provider and the citizens who use these services.

One facet of this agenda relates to 'self-sufficiency'. The central tenet of the self-sufficiency agenda is to reduce costs by reducing the reliance of service users on face-to-face contact with providers. This is achieved by replacing staff with forms of technology – such as library self-service or digital bill paying. It is also achieved by managing customer interactions via call centres. Coventry has embraced this approach via the development of generic call centre staff tooled with scripts to manage enquiries ranging from lost library books to impending homelessness. Clearly, while an increasing proportion of the population is comfortable navigating call centres and digital systems, the possibility of exclusion remains.

A second facet is the transfer of council 'assets' such as leisure centres, libraries and community centres to local groups. All three authorities had already transferred a small number of such assets to community trusts prior to 2010. Austerity has, however, very significantly energised asset transfer programmes. In Milton Keynes, a Community Asset Transfer programme is underway with a long-term goal of 'putting more control into the hands of our local communities'. Interviews suggested, however, that an additional driver of the programme was to transfer the risks and liabilities of such facilities from the council to other bodies. More than one senior officer suggested the council aimed to 'avoid future costs... we

don't want the liability of the buildings in the long term'. In Newcastle, a senior officer was clear that efforts to transfer assets indicated 'a shift of responsibility to the community, not a shift of the burden'. The need to match responsibilities with capacities, and the challenges of resourcing the community development work necessary to 'level the playing field' in relation to asset transfer, was also discussed in interviews.

A third facet relates to the encouragement of 'civic responsibility'. Newcastle has developed a range of proposals in which some of the responsibility for preventing and addressing adult care needs is passed from services to communities, to the things 'available in the person's own life and neighbourhood' (Newcastle City Council, 2012b, para.42). In addition, residents should also expect to play a more substantial role in environmental cleanliness and maintenance. In Coventry, initiatives designed to foster this will initially focus on the city centre, whereas in Newcastle a neighbourhood focus is to come to the fore. Budget proposals for 2013–16 indicate a loss of 200 FTE jobs, resulting in savings of £7.5m in street cleaning, green space and parks maintenance. Responsibility for standards of cleanliness are to be passed to citizens: 'Maintaining these standards will require individuals to take personal responsibility for supporting their neighbourhoods, with the council focusing on those services which only the council can do such as street lighting' (Newcastle City Council, 2013, p.32).

Narrowing the range and level of services

The three case studies involved in this research have made strong efforts to avoid wholesale and severe cuts to services. Despite this, there are a substantial number of examples of where the councils are withdrawing from providing a service:

- A range of services for children and young people, including those designed to promote play, are key areas where local authorities have withdrawn from provision. In some cases, the decision has been taken because there is deemed to be sufficient alternative provision available from other providers – in Milton Keynes, for example, nursery education will no longer be provided by the council for this reason.
- Arts and culture activities have also seen significant withdrawals of subsidy from councils. In Newcastle, the council's incremental withdrawal from subsidising a range of Arts and Cultural

organisations proved to be very controversial locally, leading to the establishment of a new culture fund 'pump primed' by the council to encourage more co-investment in such organisations as well as capital loans by the Council to cultural organisations to help them create income earning assets and become less reliant on public subsidy.

- Services designed to enhance neighbourhood liveability have also been targets of retrenchment strategies. In Milton Keynes, the neighbourhood warden service – with responsibility for trouble shooting environmental problems, community development and crime prevention – will be deleted in 2013/14. The deletion of this same service is also being consulted on in Coventry at the time of writing – with an annual saving around £800k identified and the loss of 30 jobs.

An alternative strategy to deleting or withdrawing support from particular services is to maintain universal coverage but in a diluted form. Examples from the case studies include:

- In Newcastle, library provision has been a controversial example of such an approach. Ten local libraries were initially identified for closure, but subsequent to consultation the closure of three of these was delayed. The council are keen to emphasise that the principle of universality had been maintained '96 per cent of Newcastle residents will still live within 1.5 miles from a library'.
- In Coventry, a number of services are being provided on a reduced frequency such as grass cutting and cleaning peripheral roads. A confidential counselling service has also seen staff reductions.
- A similar list of reductions have been implemented in Milton Keynes: street lights have been 'trimmed and dimmed' and a housing advice service is now offered as an online service. Quite significant reductions have been made to staffing complements in community safety, trading standards and environmental health.

Selective targeting according to need

A final way in which services are being retrenched is by targeting provision towards need. Two main approaches to this can be identified. In the 'proportionate universalism' model there is a guarantee of a minimum level of universal service, but the scale and intensity with which that service is

provided is designed to vary across the social gradient. A second approach is to wholly or substantially allocate resources only to the neediest clients, effectively withdrawing from providing services on a universal basis.

In Newcastle, policy documentation tends to be infused with the language of proportionality – the term ‘progressive universalism’ is used frequently. In practice, however, the council would appear to be adopting a mix of both approaches and, to an extent, the savings proposals for 2013 onwards suggest that it may not be possible to maintain the proportionate approach to targeting in all service arenas. As a senior officer indicated: ‘as cuts go deeper, it will be harder to maintain over time, particularly as we focus on core services for the more vulnerable’.

An example of this is the provision of neighbourhood environmental services in Newcastle: the initial approach to targeting devised for the period 2011–2013 provided street cleansing to clusters of wards, with each cluster containing wards with a range of levels of need. Staff resources within the clusters were allocated relative to these variations. However, savings proposals for 2013–16 suggest that a much more selective form of targeting will be put into action, accompanied by a stronger emphasis on civic responsibility than before, with council resources focused only on ‘those areas of the city which fall below acceptable standards’ (Newcastle City Council, 2013, p.32).

There is an emerging trajectory of change within Adult Social Care towards narrowing the client base eligible for services in both Newcastle and Coventry. There is considerable reluctance to take such a step, as indicated by Newcastle’s policy documentation:

“This would be a significant step that would leave people with substantial needs without necessary support. We will continue to lobby national government, and to explore further local solutions, to try to avoid this situation arising.”

Newcastle City Council, 2013, p. 42.

Some services for children and young people are now being targeted on a selective basis. In all three case studies, the Connexions service is now only provided to young people with NEET status. The provision of Children’s Centres is a high profile service arena where there are tensions between providing services on a universal or more targeted basis. Historically Newcastle’s 18 Children’s Centres provided a broad range of

services to a varied client group, with some activities provided on a targeted basis according to social and economic need. Significant cuts in Early Intervention Grant led the council to identify a clear dilemma between 'reducing services across the city' and 'focusing only on areas of the very highest need' (Newcastle City Council, 2013, p.40). In the short term, centres will be retained across the city but services within them targeted on the neediest groups. By 2015/16 the proposal is to close all but the five centres operating in the areas of highest need. The proposal recognises that this would leave approximately 5,000 children living in 'the 30 per cent most disadvantaged super output areas' without access to the service.

A parallel development in Coventry has led to eligibility thresholds for council-provided services within Children's Centres – such as playgroups – being introduced. Such services are now targeted on children in danger of being taken into care. Children's Centres in affluent areas have also been closed and more generally council-run Early Years provision now focuses on 'absolutely the most vulnerable'. Milton Keynes has not closed Children's Centres, but has nonetheless restructured early intervention work with families and children to try to ensure that it works in a more integrated way with needier groups.

Conclusion

On the basis of the evidence of this section, we would argue that the scale and nature of change underway – through efficiency, investment and retrenchment strategies – amounts to a substantial repositioning of local government.

As a result of the demands of austerity, councils are undoubtedly much leaner organisations. However, it remains to be seen if they are also more efficient. The impact of efficiency savings on the capacity of local government to develop innovative ways of managing in the new funding climate will become apparent in the coming years. There may also be a longer-term, indirect impact of these measures on front-line service provision. The third phase of this project will attempt to explore these potentially damaging aspects of efficiency savings.

In some ways, local authorities are expanding aspects of their role. This is particularly apparent in the investment in economic leadership within the case studies. Austerity would appear to have provoked a renewed emphasis on developing and managing economic growth in order both to

develop economic competitiveness and to generate income which can be spent on service provision. Economic growth as a means of managing and, indeed, reducing demands on council services is also key to understanding the vigour with which such activities are being developed.

However, as local government repositions itself to cope with the cuts, key aspects of its role appear to be retrenching. In future, council services may play a less central role than hitherto in services designed to support individual well-being as well as quality of life within neighbourhoods. A narrowing of the functions of councils is in evidence as services are withdrawn or diluted. An enhanced role for other agencies is also apparent. Attempts to transfer a range of responsibilities to service users are likely to have far-reaching implications for the nature and role of local government over the medium to longer term.

Finally, a contraction of the client base for local government is beginning to emerge. Particularly in the larger cities, some services are being increasingly targeted on needier and more vulnerable groups. In the context of diminishing resources, such developments could lead to a loss of middle class 'buy-in' to the idea that local councils need to be resourced for the capacity to provide quality services to a range of social groups. Residualisation of the sector is therefore a real threat. In Section 5, we explore in more detail the extent to which the services used by more disadvantaged groups are being protected from the worst effects of austerity at the national and case study level.

5. Are deprived communities being served by strategies to manage the budget gap?

This section focuses on the question of how disadvantaged groups within the population are faring as the local authorities implement the strategies outlined in Section 4. It assesses the distributional impact – that is the uneven impact on people at different points on the socio-economic spectrum. It does this first through looking at the data on national changes from Section 2, and second through the data on spending changes in the three case study local authorities. It then drills down into the specific savings proposals they have devised to close the budget gap.

Throughout this section we include a series of ‘how to’ boxes. These explain the steps taken by the research team in order to assess these distributional impacts. Other councils may wish to undertake similar assessments by following these steps.

At the core of our analysis is a body of research showing that there is variation across the income spectrum in relation to which groups use or benefit from which council services. More detail is provided in the Main Report on this phase of the research. Essentially, the research identifies:

- which services are ‘pro-poor’, in that these services tend to be used more by lower income households who therefore benefit disproportionately from spend on these services;
- which services are ‘pro-rich’ in their pattern of use; and
- which are used relatively equally across social groups (and are therefore neutral to a greater or lesser extent in their distributional impact).

In Table 2, we use the service headings employed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to identify spend on specific services and place them on a spectrum from ‘very pro-poor’ to ‘pro-rich’ based on the degree of unevenness in use or benefit. We should stress that all of these services are used by people from a range of social groups. The variation is in the extent or frequency of use in general, as identified in a number of studies. We should also note that different

individuals or groups will have their own views about which services matter most to them or make the greatest difference in their lives.

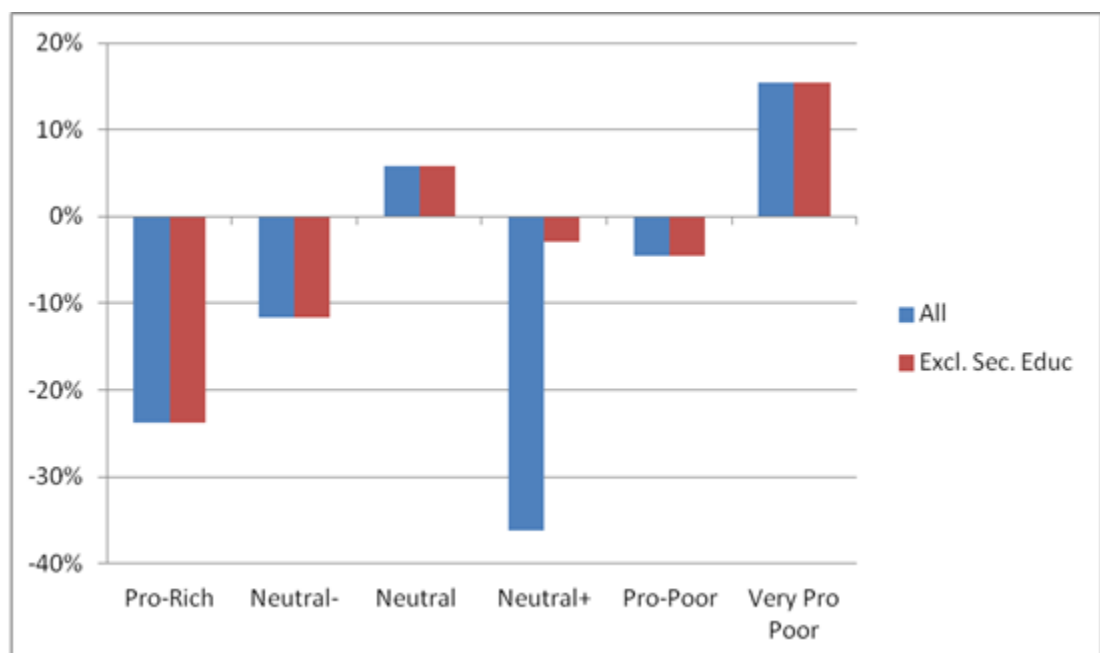
Table 2: CIPFA services by pattern of socio-economic use/benefit

Pattern of use/benefit	Service headings
Very pro-poor (3)	Housing Benefit (administration), Homelessness, other Housing General Fund spend, Children's Social Care, Citizens' Advice, (and Police)
Pro-poor (2)	Crime and Community Safety; Social Care for Older People and other Adult groups, including Home Care; Fire and Rescue; Primary and Special Education; Other Education; Public Transport (bus); School Transport
Neutral-plus (1)	Concessionary Fares; Libraries; Secondary Education; Youth; Careers
Neutral (0)	Community and Economic Development (within Planning); Early Years/Pre-School; Environmental Health; Street Cleansing; Trading Standards; Waste Collection
Neutral-minus (-1)	Play; Further Education; Parks and Public Space; Recreation and Sport; Road Maintenance; Street Lighting; Tourism; Traffic Management
Pro-rich (-2)	Adult/community Education; Museums and Galleries; Other Arts and Culture; rest of Planning; Parking. ²

The distributional impact of spending changes – the national picture

Using the pro-poor/pro-rich classification, we analyse the distributional character of local authority expenditure at a national level. Figure 9 shows the relative level of change in spend for the different groups of services over the three years from 2010/11 to 2013/14. This is based on CIPFA budget data for all English local authorities.

Figure 9: Expenditure change (per cent) by distributional character of service – English local authorities 2010/11 to 2013/14



Note: 'Parking' excluded in both as largely income. Adjustment made for changes in early years services.

Source: CIPFA budget data.

Figure 9 shows that services which are used more by the better-off have seen greater budget reductions. Indeed, services which are very pro-poor have seen an increase in expenditure over this period. This is mainly driven by an increase in spending on children's social care (although this offsets reductions in Supporting People and other housing spending).

Figure 9 shows *relative* increases or decreases in expenditure rather than absolute changes. It therefore captures the scale of any change relative to baseline spending on those services, the scale of which can vary significantly. This means that, while the figure shows that services which are moderately pro-poor – such as adult social care – have seen a small

decline in relative terms, the absolute level of spending reductions in this category is in fact four or five times greater than the level in 'pro-rich' or 'neutral-minus' services.

It is important to note that Figure 9 is only an analysis of change in budgets or expenditure. Expenditure may need to rise just to keep pace with demand or cost pressures. Services with rising or static patterns of expenditure will still be faced with making savings to meet demand or cost pressures. It should also be stressed that some increase is driven by statutory responsibilities. Local authorities cannot avoid their child protection duties and these tend to increase during recessions.

The distributional impact of spending changes and savings plans – the case study picture

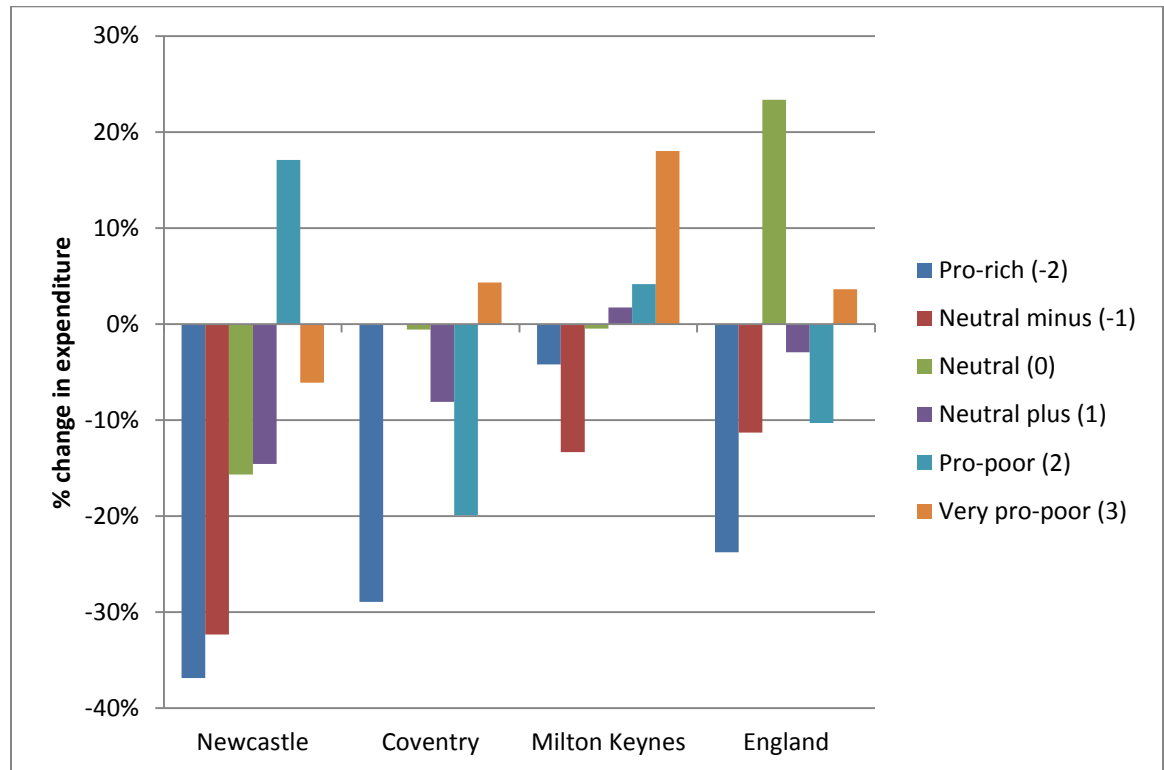
For the case studies, we use two data sources:

- CIPFA data at the case study level, which provides a local picture of budget or spending changes;
- data provided directly by the case study authorities, in which they detail actual savings plans to close the budget gap (i.e. the savings necessary to meet funding reductions and cost/demand pressures).

Spending changes

The CIPFA data covers the period for 2010/11 to 2013/14 and allows the net change in budgets for a range of broad service headings to be identified (Figure 10). Again, these are changes in cash budgets so the same caveats apply as with the previous section.

Figure 10: Expenditure change (per cent) by distributional character of service – English case study authorities 2010/11 to 2013/14



Notes: Expenditure on primary, secondary and special schools excluded.
 No adjustment made for changes in early years services.
 Source: CIPFA budget data.

Figure 10 shows a broadly similar 'positive' gradient for the case study authorities compared to the national picture. There is some variation in the case studies, however. In Newcastle, there are spending reductions in almost every category of service, with greater relative reductions for the more 'pro-rich' services. Coventry follows a similar pattern (although the lack of change in 'neutral-minus' services is striking). In Milton Keynes, the positive gradient reflects a range of increases for the more pro-poor service and cuts for the more pro-rich.

Box 2: How to assess the distributional character of changes of spending on service (Figure 10)

Step 1: Use Table 2 to categorise CIPFA data on service expenditure according to the pro-poor to pro-rich spectrum.

Step 2: Calculate the changes in expenditure for each category of service for each year of interest.

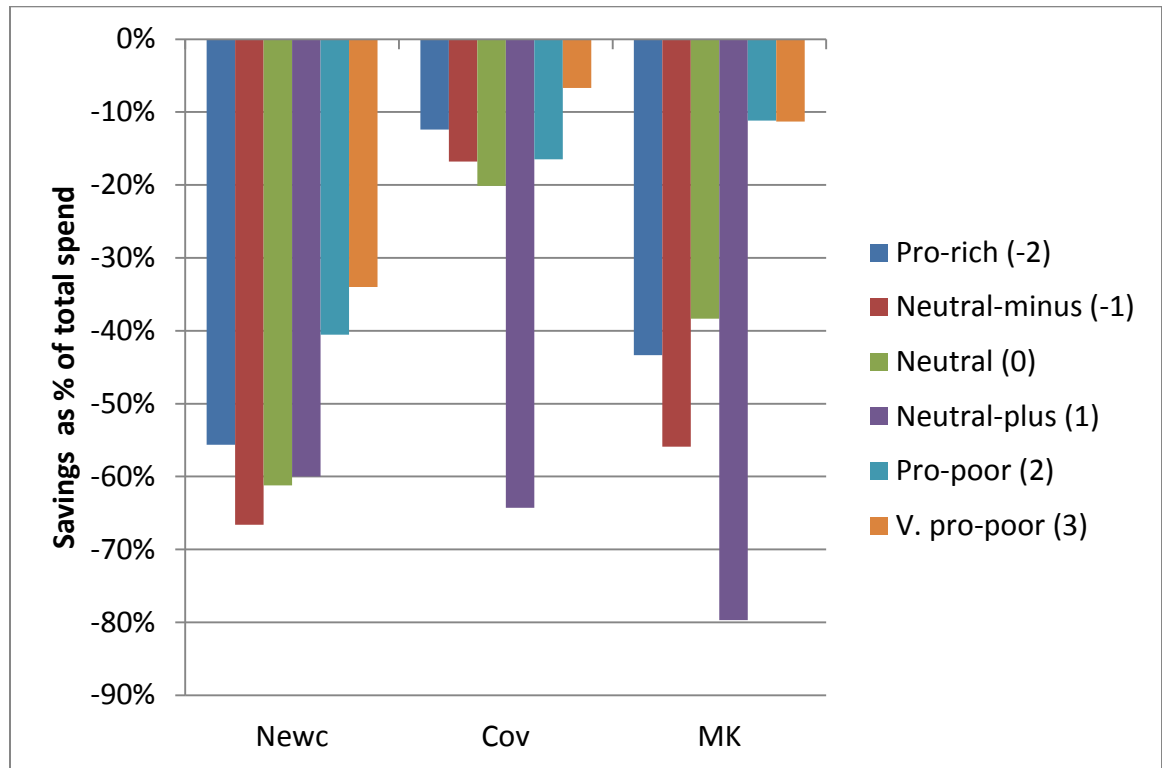
Step 3: Choose to display expenditure changes over time or in aggregate.

Note: This analysis will show relative changes between categories, rather than changes in absolute budgets.

Savings plans

As indicated in Section 4, the case study authorities provided detailed information to the research team on the specific savings they had already made or planned to make to close the annual budget gaps (i.e. funding gap plus cost pressures). These covered five years and amounted to 1,400 budget lines. These provide much more information than the CIPFA budget data. They capture all the savings required to close the budget gap, not just those affected by the funding gap; that is, they reflect expenditure pressures from cost inflation or rising demand as well. In Figure 11, we use these to assess the distributional character of savings plans.

Figure 11: Relative savings by distributional character of services, 2010/11–2015/16



Source: CIPFA budget data, local authority budget reports

The picture of relative protection of pro-poor services by the case studies presented in Figure 11 is broadly similar to that presented in Figure 10 (which analysed 'expenditure only' change.) There are some differences however. In Coventry and Milton Keynes, the 'pro-poor' and 'very pro-poor' services are seeing relatively small levels of savings. In Newcastle, the savings for these services are small relative to other services but still appear substantial in absolute terms. In all three authorities, more of the burden of savings falls on the 'neutral' to 'pro-rich' services, although there is less evidence of a gradient in Coventry. In that authority, and in Milton Keynes, there is significantly more pressure on the 'neutral-plus' category. Concessionary fares, libraries, youth services and careers advice all fall within this category and a mix of savings plans affecting these services explains this pattern (secondary education also features in the category – but the case studies were not delivering savings on the service).

Box 3: How to analyse your council's savings plans for their distributional impact (Figure 11)

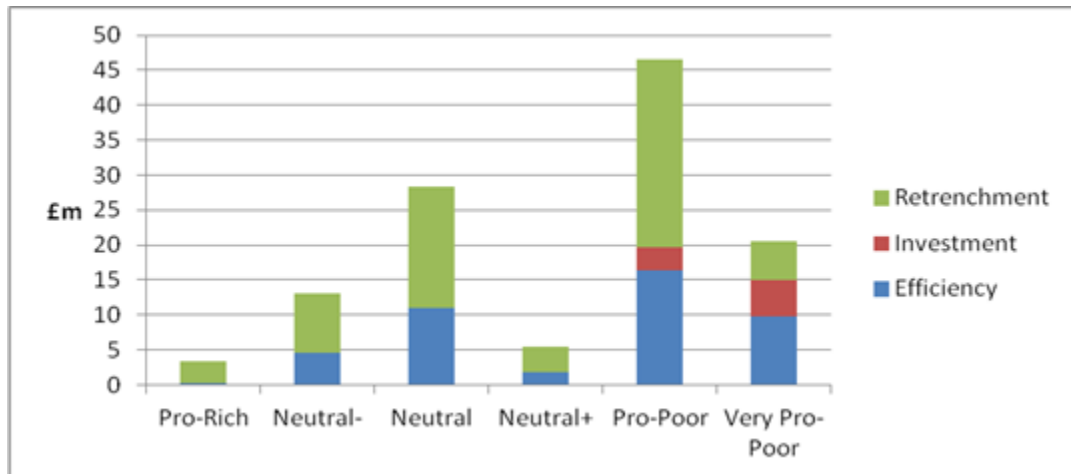
Step 1: Identify the services affected by savings proposals according to the pro-poor to pro-rich spectrum. This involves repeating step 1 from Box 2 but this time using your *savings* data not the expenditure data. This provides the pattern of absolute levels of savings, but does not take account of the fact that some services have more spent on them, and so absolute savings are likely to be higher in these arenas.

Step 2: Use the estimates of spending on these services calculated in Box 2 as a baseline. This gives an assessment of the relative scale of savings according to services which fall in the pro-poor to pro-rich spectrum.

The distribution of savings across CIPFA service categories tells us *where* the case study areas are making large amounts of savings but says nothing about *how* they make these savings. However, categorising local authorities' savings data with respect to the efficiency, investment or retrenchment framework set out in Table 1 allows us to explore the 'how' question alongside the distributional impact issue.

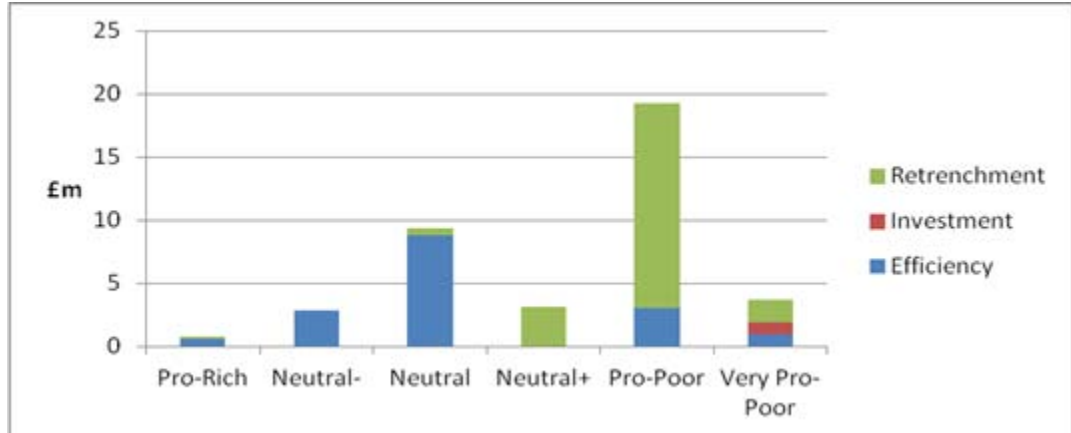
Figures 12 to 14 show – for each case study in turn – the balance between the three different headline strategies of efficiency, investment and retrenchment, and indicate how the services targeted for individual savings within each of these strategies fit within the pro-poor to pro-rich spectrum.

Figure 12: Newcastle savings by strategy and distributional character of services, 2011/12–15/16



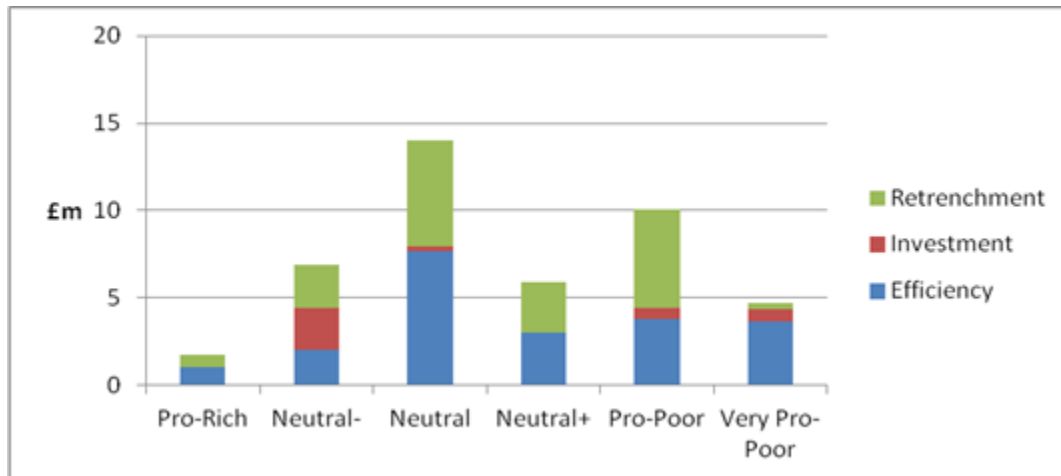
Source: Newcastle budget reports

Figure 13: Coventry savings by strategy and distributional character of services, 2011/12–15/16



Source: Coventry budget reports

Figure 14: Milton Keynes savings by strategy and distributional character of services, 2011/12–15/16



Source: Milton Keynes budget reports

In Newcastle, there is greater use of retrenchment strategies in order to make savings in the ‘pro-rich’ to ‘neutral’ group of services than in the ‘pro-poor’ service groups. This would suggest that in Newcastle the burden of retrenchment – and therefore of change to front-line services – is largely being felt in services that are in the neutral to pro-rich category. Indeed, as we move along the spectrum to the ‘pro-poor’ service groups, it is clear that efficiency and investment strategies are used more frequently here – although the considerable amount of savings being made via retrenchment strategies in the ‘pro-poor’ category is quite striking. These savings largely relate to proposed changes in thresholds for adult social care services – a measure which the council is reluctant to undertake but which, if implemented, would impact significantly on poorer groups.

In comparison with Newcastle, the Coventry data shows more of a focus on efficiency strategies for neutral to ‘pro-rich’ services and on retrenchment for those on the poorer end of the spectrum. The greater reliance on retrenchment for the ‘pro-poor’ service groups might indicate less of a cushioning effect for the service users at that end of the spectrum. Milton Keynes’ savings strategies tend to be more varied across the three headline strategies, with efficiencies and retrenchment strategies pursued across the spectrum.

Box 4: How to analyse your council's savings by headline strategy and distributional character of services (Figures 12 – 14)

Step 1: Quantify your savings in relation to the efficiency, investment and retrenchment framework (see Box 1 for instructions).

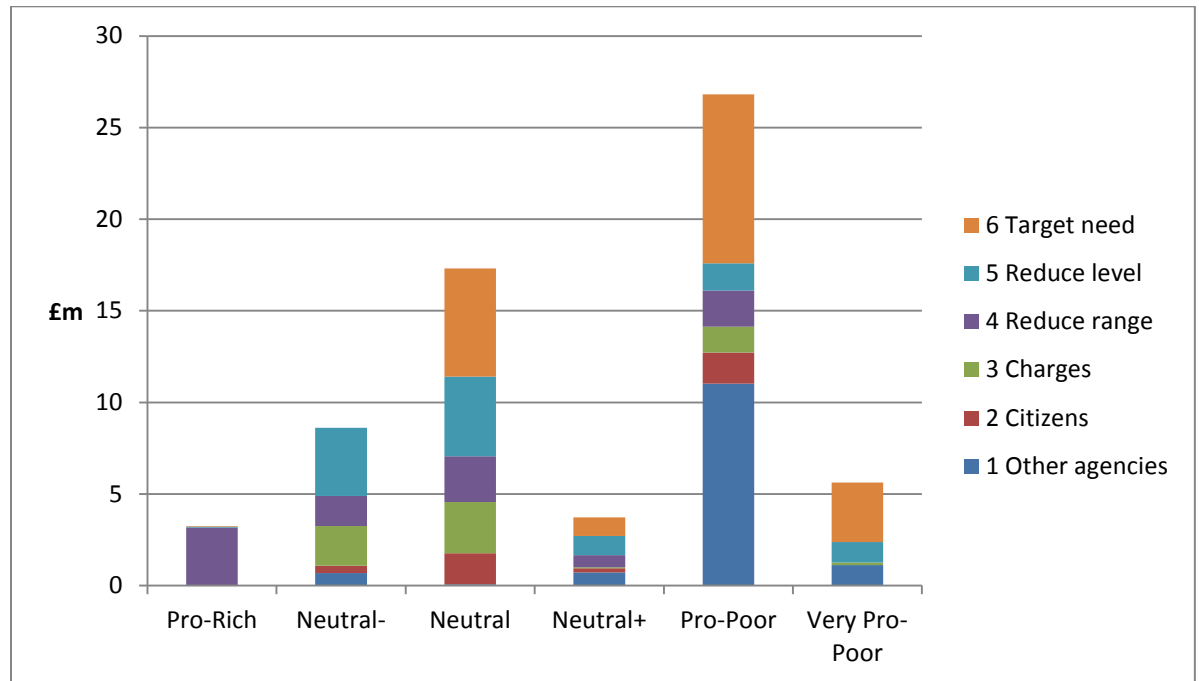
Step 2: Identify the services impacted by savings proposals according to the pro-poor to pro-rich spectrum (see Box 2, step 1 for instructions).

Step 3: Data from steps 1 and 2 are combined to give the strategic approach adopted to achieve a saving within these groups of services. This allows analysis of the extent to which savings across the pro-rich to pro-poor spectrum of services are achieved by efficiency etc.

We can also use the data to look more closely at the specific ways in which the three headline strategies have been achieved, i.e. we can look at the distributional character of different sub-strategies.

Below we take a closer look at the retrenchment category on the basis that savings achieved via this means will impact most strongly on front-line services and will have the most significant distributional impact. In the main report, we will consider all three case studies. Here by way of illustration we only show the analysis conducted in respect of Newcastle, but also indicate in outline how the other two case studies differ from the Newcastle case.

Figure 15: Newcastle savings from retrenchment strategy by distributional character of services, 2011/12–15/16



Source: Newcastle budget reports

Figure 15 shows that all of the savings for ‘pro-rich’ services via retrenchment are made via one sub-strategy: reducing the range of services supported by the council, for example withdrawal of subsidy to arts and culture organisations. In the ‘neutral-minus’ services, we see more variation, with the emphasis on continuing services but at reduced levels (for example, grounds maintenance) or increasing charges (for example, leisure facilities and parking). The passing over of responsibility to other agencies or to citizens is also important, albeit to a lesser extent in this category.

The largest retrenchment savings are made in the ‘neutral’ and ‘pro-poor’ services. Greater targeting of need is prominent: in Newcastle, this is mainly early years services, changes to neighbourhood environmental service provision, and adult social care. Targeting is also being used for services for vulnerable young people and crisis housing (very pro-poor services). Passing responsibilities to other agencies is the other important source of savings in the ‘pro-poor’ category, affecting arrangements with the NHS in relation to adult social care.

In Coventry the same analysis (not shown) demonstrated the importance within retrenchment of strategies designed to pass responsibility over to citizens and showed how these largely affected the poorer 'neutral-plus' and 'pro-poor' groups of services. Such savings are to be made largely in adult social care by expecting people to do more for themselves but also in relation to services provided to schools. Targeting of needs is also prominent, particularly in 'pro-poor' and 'very pro-poor' services. In Milton Keynes, the analysis revealed that charging as well as reducing the range of services are the most important approaches to retrenchment, with reducing levels, targeting need and citizen responsibilities also important. In particular, the analysis revealed the importance of the asset transfer process in Milton Keynes in which responsibility is passed to community groups to run recreational and other facilities. Unlike the 'pro-poor' services in Newcastle and Coventry, these are not experiencing much targeting in Milton Keynes but are instead seeing a reduction in the range of services provided by the council.

Conclusion

This section provides the first analysis of the likely distributional impacts of the local authority cuts which have occurred in England over a four year period since 2010. For the case study authorities, the analysis looks ahead two years as far as 2015/16. It uses two kinds of data: data on budgets from CIPFA and data on savings made or planned from our case study authorities. The latter give a much more complete picture, since it reflects cost pressures as well as funding gaps.

Overall, the two sources of data paint a similar picture. In proportional terms, services which are used to a greater extent by more affluent groups have tended to see greater budget reductions and a greater share of savings. This is not necessarily true in all authorities; in one of our case studies, Coventry, the distribution of savings looks even rather than skewed in this direction. Nevertheless it is true in general.

This does not mean, however, that services used more by more deprived groups have been immune from savings. The case study data on budget savings provide a more complete picture, and show significant savings being made in all categories of services in all three authorities. Importantly, this includes those where the CIPFA budget data show some increase in total expenditure. And in absolute terms, the 'pro-poor' services account for a much larger proportion of all savings because they also account for a larger proportion of all expenditure.

The analysis also shows how the savings are being achieved for different kinds of services. This reveals more differences between the authorities in terms of the likely distributional impacts. We focus on savings through retrenchment since these are more likely to have a direct impact on service users. In two authorities, these kinds of savings are targeted more on 'neutral' to 'pro-rich' kinds of service and are relatively uncommon on 'pro-poor' services. In the third, retrenchment occurs almost entirely in 'pro-poor' services.

When examining the savings made through the case studies' use of retrenchment strategies, we are able to glimpse the future role of the council in these areas. For example, targeting 'need' is a common strategy employed by both Newcastle and Coventry when making savings in 'pro-poor' services. Newcastle also makes savings in this area through closer working with the NHS, whereas Coventry focuses on transferring responsibility to and promoting behaviour change among service users.

This analysis provides a window into the impacts of budget savings on different income groups in each authority, both now and over the next two years. There are many caveats or potential limitations and we do not claim that this is a definitive picture of the actual impacts. We do believe, however, that it provides a strong indication of likely impacts and hence a strong basis for the third stage of our work, which focuses more strongly on the impacts of austerity.

6. Reflections and key messages

Reductions in funding for local government reflect the aim of central government to reduce the reliance of local government on grants. Almost inevitably this means that local authorities with the highest levels of deprivation will be disproportionately affected by austerity.

The scale of the reductions in the spending power of English and Scottish local authorities suggests that a massive change is underway with respect to the centrality of local government services related to well-being and quality of life. Local government's share of the economy is set to fall from over 5 per cent in 2008/9 to 3.6 per cent in 2014/15. The acceleration of this trend post-2010 reflects several key priorities of the Coalition Government: reduction of total public spending and deficit; tackling perceived inefficiencies of service provision; and tackling a perceived dependency of local authorities on government grant. The aim is to move authorities onto a more entrepreneurial, income-generating footing. However, the income generation strategies developed by the case study authorities are not likely to bear significant fruit for some considerable time. And income generation will inevitably favour some authorities over others – most obviously, those in the south and east, over those in the north and west.

Grant reductions of the kind implemented by the Coalition Government mean that the worst effects of austerity are focused on local authority areas which are home to larger concentrations of the poorest people. Historically, councils with higher levels of deprivation have received additional grant income to compensate for levels of need. This 'strategy of equality' is being undone by the current government: north and south of the border, deprived councils have been subject to the biggest reductions on a per capita and proportionate basis. Such authorities face significant difficulty in continuing to meet the range of needs and demands in their areas.

Poorer groups have enjoyed a degree of protection from the worst effects of budget contraction thus far. But poor people and places still stand to lose the most from austerity now and as it rolls out in the coming years.

The strategies devised by councils to manage austerity have tended to impact relatively more on the services used more often by better-off groups. This does not mean, however, that poorer people and places have

not been affected significantly by budget cuts. While there is evidence of relative protection of some of the services used more by poorer groups at the national and local level, absolute levels of spend on these services have nonetheless tended to be reduced. Furthermore, the detailed savings plans of the case studies all show cuts in pro-poor and very pro-poor services – in one case these are really quite significant in absolute terms.

It needs to be constantly borne in mind that public services play a much more important role in the lives of people on low incomes compared to those living in more affluent circumstances. Poor people cannot replace a visit to the library or free museum with a visit to the bookshop or theatre. Neither can they augment the care funded by local government with care purchased from the market.

Local government has largely coped with the cuts thus far by paring back costs and capacities. To cope with the cuts to come, it is being forced to re-consider what services it can provide and for whom.

The evidence of this research is clear: the substantial efficiency programmes devised by the case study authorities to manage austerity thus far cannot be relied upon to manage the funding cuts indicated for future years. Local authorities are therefore faced with contracting services, re-thinking responsibilities for delivering services and outcomes and refocusing the provision which remains on particular client groups. Funding cuts are part of a bigger project in which local government is repositioned as leaner and as less central to the lives of many citizens – particularly those outside vulnerable and deprived social groups.

Councils are energetically encouraging ordinary citizens to take on more responsibility for their individual well-being and quality of life in their neighbourhoods. The potential for this strategy to impact unevenly on poor people and places needs to be considered.

There are mixed views on whether the various approaches underway for transferring a range of responsibilities from councils to service users should be welcomed. There is undoubted support in some parts of local government for measures which attempt to reduce the reliance of residents on council services such as those for clearing up litter. If these attempts are successful, some of the central tenets of the Big Society and localism agendas are likely to be borne out: namely, that when the local state contracts, individuals and communities come forward to fill the gaps

– by providing higher levels of care for family or neighbours or by running libraries and leisure centres for example. In this vein, transferring responsibility may also halt some of the behaviours which lead to the need for services to be provided in the first place – again littering would be an example.

However, there is also concern that, if the attempts are unsuccessful, then a rather different set of outcomes will be apparent – some care needs will not be met, some valued libraries and leisure centres will go by the wayside, some streets will be littered and degraded. There is also concern that it will be difficult to provide the funds needed to support people living in poorer neighbourhoods to, for example, take on the running of the local leisure centre and ensure its long-term financial viability. Finally, unless carefully implemented, the development of strategies designed to reduce levels of face-to-face contact between councils and citizens across local government have the potential to exclude and isolate.

The residualisation of local government service provision is a potential outcome of this refocusing of services onto more disadvantaged groups. In order to maintain a broad base of support – and of funding, councils will arguably need to find ways to continue to serve better-off social groups.

The evidence from the research was of efforts to shield disadvantaged groups from the worst effects of austerity. However, in the context of diminishing resources, protecting pro-poor services could reduce the capacity of councils to provide a broad range of services to groups across the social spectrum. Given that so much of local government expenditure is focused on pro-poor services such as social care and child protection, deciding to shelter these services means deciding to expose other more discretionary services to larger relative cuts.

There is also evidence of services being increasingly targeted on those with the highest needs – such as careers services for young people being focused entirely on those with NEET status, or Sure Start centres closed in all but the most deprived neighbourhoods. There is a danger that this might lead to a situation in which local government serves only the neediest fraction of the population. This leads to the obvious risk of ‘threshold effects’ – where those with slightly lower levels of individual need or who live just outside designated areas miss out. More fundamentally however, services which are residualised can become stigmatised: only for those unable to access services provided by the

market. As a result, the willingness of those who do not rely on council services for the majority of their needs to pay for council services relied on almost exclusively by the poor could be undermined.

Councils can keep track of how their budget savings strategies deliver on social justice objectives. Assessing the impact of savings on services used more by disadvantaged groups provides important evidence to feed into budgetary decision-making processes.

Most authorities will have a good idea about how their savings are being distributed across different kinds of services, but the approach developed here could be valuable in providing more objective evidence to support this. Local councils can readily replicate the various analyses reported in this document. The report details the stages involved in assessing the relative impact of savings on people at different points on the socio-economic spectrum. Councils can reflect on this kind of evidence in order to consider whether the decisions made on individual savings accurately reflect overall political and strategic priorities. Clearly such assessments also provide a window on change over time. As austerity continues over the coming years and savings become progressively more difficult to find, it will become more important to assess the impacts of savings plans against council priorities. By undertaking the analyses described in this report, councils can be alert to the need to adjust plans or undertake remedial action.

Looking forward: the next stage of the research project

The next and final phase of the study – which will also include detailed research with a Scottish local authority – examines the impacts of austerity in more depth. It will involve focus groups and follow-up interviews with relatively deprived parents living in different neighbourhood circumstances. This group of service users are likely to have experienced the consequences of savings strategies across a range of services from play and youth services to libraries and leisure centres. Moreover, while the analysis presented in this report focuses on the pattern of change and on the monetary value of savings, those who use services will have insight into the significance of this pattern – particularly its cumulative effects. They can also identify the value of specific services in terms of quality of life rather than monetary value, illuminating the meaning to ordinary people of service redesigns, reductions and transfers of responsibility.

In its next phase, the research will also focus on those who provide services, specifically front-line staff and operational managers. Discussions with staff should offer further insight into the consequences for individuals and for neighbourhoods of providing services in new or reduced ways. They should also help to highlight any impacts on front-line services of efficiency savings focused on back office, support functions. Interviews will also be conducted with representatives from voluntary sector organisations potentially involved in filling the gaps left by reduced services.

A further update of the national picture of change in Scotland and England will also be undertaken in the final phase, as well as more work to explain the evolving strategic direction of the case studies.

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Notes

1. *Social Policy in a Cold Climate* is a research programme designed to examine the effects of the major economic and political changes in the UK since 2007. It is funded by the JRF and the Nuffield Foundation, with London-specific analysis funded by the Trust for London. See http://sticerd.lse.ac.uk/case/new/research/Social_Policy_in_a_Cold_Climate.asp (accessed 08 November 2013).
2. In the analysis of CIPFA data, 'parking' is ignored since it is a source of income to the authority as a whole. In the analysis of local budget data, 'parking' was classified with 'Traffic Management' as 'neutral-minus' (-1).

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